

Chapter 6

COMPONENT B: AUDITOR-GENERAL OPINION 2012/13 (CURRENT YEAR)

6.2 AUDITOR GENERAL REPORT 2012/13



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

REPORT OF THE AUDITOR-GENERAL TO THE NORTH WEST PROVINCIAL LEGISLATURE AND THE COUNCIL OF THE CITY OF MATLOSANA

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the financial statements of the City of Matlosana set out on pages 317 to 369, which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended and the notes, comprising of a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP), the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), the Division of Revenue Act of South Africa, 2012 (Act No. 5 of 2012) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Because of the matters described in the basis for disclaimer of opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

Property, plant and equipment

4. The municipality did not recognise, value and disclose all assets in the financial statements as required by SA Standards of GRAP, GRAP 17, *Property, plant and equipment*.



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Property, plant and equipment is understated by R488 821 386 (2012: R509 476 408). The consequential impact on depreciation expense and accumulated surplus could not be quantified as it was impracticable to do so. In addition, I could not obtain sufficient appropriate audit evidence to confirm whether a payment of R29 632 000, included in the property, plant and equipment, was correctly capitalised. I was unable to confirm the correct treatment of this payment by alternative means. Consequently, I was unable to determine whether any adjustment relating to property, plant and equipment of R6 142 236 562 (2012: R6 436 734 046) as disclosed in note 3 to the financial statements was necessary.

Investment property

5. Properties that met the recognition criteria of investment properties as per SA Standards of GRAP, GRAP 16, *Investment property*, were not included in the asset register as investment properties and consequently not recognised in the financial statements. In addition, investment properties were incorrectly recognised as inventory. Consequently, investment properties is understated by R64 769 255 (2012: R64 810 656), accumulated surplus understated by R20 553 867 (2012: R20 553 867) and inventory overstated by R44 215 388 (2012: R44 256 789).

Consumer debtors

6. I was unable to obtain sufficient appropriate audit evidence for consumer debtors as information requested from management was not made available. The municipality's records did not permit the performance of alternative audit procedures. Consequently, I was unable to determine whether any adjustments to consumer debtors of R1 361 829 998 (2012: R1 205 257 250) were necessary.
7. As reported in the prior year, sufficient appropriate audit evidence were not submitted to substantiate consumer debtors written off during the 2011 financial year amounting to R22 788 276. I was unable to confirm this amount by alternative means. Consequently, I was unable to determine whether any adjustment relating to consumer debtors of R1 361 829 998 (2012: R1 205 257 250) disclosed in note 10 to the financial statements was necessary.
8. The municipality did not disclose the ageing of its consumer debtors as required by SA Standards of GRAP, GRAP 104, *Financial instruments*. Consumer debtors of R362 699 920, inappropriately written off in 2011, were not reinstated to the respective service categories but incorrectly grouped together under the other consumer debtors category.

Receivables from exchange transactions

9. I was unable to obtain sufficient appropriate audit evidence to substantiate receivables in the prior year that was written off in the current year. I was unable to confirm these debtors by alternative means. Consequently, I was unable to determine whether any adjustments relating to impairment of receivables expense of R151 789 232 as disclosed in note 26 and receivables from exchange transactions of R9 084 028 (2012: R22 765 053) as disclosed in note 8 to the financial statements, were necessary.

Payables from exchange transactions

10. The municipality did not correctly recognise and disclose payables from exchange transactions in the financial statements as required by SA Standards of GRAP, GRAP 1, *Presentation of financial statements*. Consequently, payables and property, plant and equipment are overstated by R58 439 323 and the corresponding amount for payables and operating expenditure are understated by R66 533 471.



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11. I was unable to obtain sufficient appropriate audit evidence for payables of R13 614 908 (2012: R121 614 627) and retentions of R21 189 539 (2012: R18 382 422) included in trade payables and sundry creditors. I was unable to confirm the amount of these creditors by alternative means. Consequently, I was unable to determine whether any adjustment relating to trade payable of R131 506 672 (2012: R88 478 177) and sundry creditors of R137 878 797 (2012: R131 957 670) as disclosed in note 16 to the financial statements, was necessary.
12. The municipality did not correctly account for debtors with credit balances in the financial statements as required by SA Standards of GRAP, GRAP 1, *Presentation of financial statements*. Consumer debtors with debit and credit balances were incorrectly disclosed as debtors and creditors. Consequently, payments received in advance disclosed in note 16 and consumer debtors disclosed in note 10 to the financial statements are overstated by R26 140 721.

Payables from non-exchange transactions

13. The municipality did not correctly recognise and disclose payables owed to the provincial government from non-exchange transactions in the financial statements as required by SA Standards of GRAP, GRAP 1, *Presentation of Financial Statements*. Consequently, payables from non-exchange transactions are understated by R46 825 099. The consequential impact on other classes of transactions and account balances could not be quantified as it was impracticable to do so.

Unspent conditional grants

14. Due to limitations placed on the scope of my work in prior years, I could not obtain sufficient appropriate audit evidence to confirm unspent conditional grants. I was unable to confirm the amount pertaining to these liabilities by alternative means. Consequently, I was unable to determine whether any adjustment relating to unspent conditional grants of R102 190 674 (2012: R76 044 287) disclosed in note 14 to the financial statements was necessary.

Provisions

15. SA Standards of GRAP, GRAP 19, *Provisions, contingent liabilities and contingent assets* require that a provision be recognised when an entity has a present obligation for an outflow of economic resources that can be reliably estimated. Contrary to this requirement, the municipality failed to recognise a provision for long-service awards. I was unable to determine the extent of this provision due to limitations placed on the scope of my work by the municipality. The municipality's records did not permit the application of alternative audit procedures regarding this provision. Consequently, I did not obtain all the information and explanations I considered necessary to satisfy myself as to the extent of the provision.
16. The cost to rehabilitate landfill sites were not accounted for in terms of SA Standards of GRAP, GRAP 19, *Provisions, contingent liabilities and contingent assets*. Consequently, due to the incorrect accounting treatment expenditure is understated by R23 437 743, assets overstated by R10 398 962 and revenue understated by R13 038 782.

VAT payable

17. The municipality did not account for all the VAT transactions and VAT receivables in terms of SA Standards of GRAP, GRAP 1, *Presentation of financial statements*. Had these transactions been correctly accounted for, the VAT payable of R1 908 500 would have been Rnil and a VAT receivable of R29 963 944 recognised. The consequential impact of this misstatement on other classes of transactions and account balances could not be quantified as it was impracticable to do so.



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Consumer deposits

18. I was unable to obtain sufficient appropriate audit evidence for consumer deposits disclosed in the financial statements as information requested from management was not made available. I was unable to confirm consumer deposits by alternative means. Consequently, I was unable to determine whether any adjustment relating to consumer deposits of R39 705 014 (2012: R23 312 820) as disclosed in the statement of financial position and note 18 was necessary.

Accumulated surplus

19. Limitations placed on the audit of expenditure, revenue transactions and adjustments made to the accumulated surplus in prior years have not been resolved. The municipality's records did not permit the application of alternative audit procedures regarding these transactions. Consequently, I was unable to determine whether any adjustment relating to accumulated surplus of R5 601 737 468 (2012: R5 967 758 182) as disclosed in the financial statements was necessary.

Housing development fund

20. I was unable to obtain sufficient appropriate audit evidence that management has properly accounted for all revenue transactions relating to the housing development fund in terms of the requirements of section 14(4)(d) of the Housing Act, 1997 (Act No. 107 of 1997), due to the non-availability of accounting records. I was unable to confirm the housing development fund reserve by alternative means. Consequently, I was unable to determine whether any adjustment to the housing development fund reserve as disclosed in the statement of financial position as R5 125 928 (2012: R5 125 928) was necessary.

Revenue

21. During 2012, I was unable to obtain sufficient appropriate audit evidence for other income of R82 536 209 disclosed in the statement of financial performance. I was unable to confirm the amount of other income by alternative means. Consequently, I was unable to determine whether any adjustments relating to the corresponding figure for other income in the financial statements were necessary. My audit opinion on the financial statements for the period ended 30 June 2012 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

Operating expenditure

22. During 2012, I was unable to obtain sufficient appropriate audit evidence to substantiate payments for goods and services and whether services were received for payments made. I was unable to confirm these transactions by alternative means. Consequently, I was unable to determine whether any adjustments relating to the corresponding figure for general expenses of R184 565 403 as disclosed in note 23 and contracted services of R54 626 526 as disclosed in note 31 to the financial statements, were necessary. My audit opinion on the financial statements for the period ended 30 June 2012 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

Remuneration of councillors

23. Contrary to the requirements of section 7(1) of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998), councillors were paid in excess of the upper limits as determined by the Minister.



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Consequently, councillors remuneration amounting to R22 232 302 as per note 25 of the financial statements is overstated by R4 024 019 and the irregular expenditure receivable understated by R4 024 019.

Cash flow statement

24. Contrary to the requirements of SA Standards of GRAP, GRAP 2, *Cash flow statements*, the municipality's calculation of net cash flows from operating activities and cash generated from operations did not appropriately account for non-cash items in the cash flow statement. The municipality's records did not permit the application of alternative audit procedures to determine the extent of the misstatement. Consequently, I did not obtain sufficient appropriate audit evidence to confirm the accuracy of the cash flow statement for the current and corresponding year.

GRAP disclosures

25. The municipality did not separately disclose all material amounts in the financial statements as required by SA Standards of GRAP, GRAP 1, *Presentation of financial statements*. Material classes of similar items were not presented separately for other income, property, plant and equipment, operating expenses and payables from exchange transactions in the financial statements.
26. Comparisons between the budget and actual amounts disclosed in the statement of comparative and actual information in note 47 of the financial statements were not adequately disclosed as required by SA Standards of GRAP, GRAP 24; *Presentation of Budget Information* in Financial Statements. Furthermore, material differences between the budget and actual amounts were not explained. A comparison between the budgeted and actual capital expenditure were also not disclosed in the notes to the financial statements.

Unauthorised expenditure

27. Section 125 of the MFMA requires disclosure of material unauthorised expenditure. Unauthorised expenditure of R113 108 659 incurred during the year as a result of overspending on individual votes were not disclosed in the notes to the financial statements. Consequently, unauthorised expenditure of R844 561 709 as disclosed in note 41 to the financial statements is understated by R113 108 659.

Irregular expenditure

28. Section 125 of the MFMA requires the disclosure of irregular expenditure incurred. The municipality made payments in contravention with the supply chain management requirements which were not included in irregular expenditure disclosed. Consequently, irregular expenditure as per note 43 to the financial statements, is understated by R34 677 310 (2012: R233 301 425).
29. I was unable to obtain sufficient appropriate audit evidence to confirm that awards of R257 848 535 (2012: R809 476 993) were made in terms of the supply chain management policy. Sufficient and appropriate audit evidence could also not be provided to substantiate irregular expenditure amounting to R284 378 350 included in note 43 to the financial statements. The municipality's records did not permit the application of alternative procedures. Consequently, I was unable to determine whether any adjustment relating to irregular expenditure of R397 771 476 (2012: R33 897 811) disclosed in note 43 to the financial statements was necessary.

Commitments

30. I was unable to obtain sufficient appropriate audit evidence for capital commitments as information requested from management was not made available.



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The municipality's records did not permit the application of alternative procedures. Consequently, I was unable to determine whether any adjustments to capital commitments of R224 832 742 (2012: R234 223 242) as disclosed in note 34 to the financial statements were necessary.

MFMA disclosures

31. Section 125(1)(c) of the MFMA requires the disclosure of the total amounts paid in audit fees, taxes, levies, duties and pension and medical aid contributions and whether any amounts were outstanding at the end of the financial year. The amounts for the corresponding year as disclosed in note 44 to the financial statements for medical and pension contributions and taxes and levies are misstated. The corresponding figures for medical and pension fund contributions are understated by R7 013 936, taxes and levies understated by R6 487 985 and the amount for outstanding audit fees understated by R1 214 394.
32. The municipality did not disclose electricity and water distribution losses in the financial statements as required by section 125 (2)(d)(i) of the MFMA. I was unable to determine the amount of these distribution losses by alternative means. Consequently, I was unable to determine the extent of the non-disclosure of distribution losses on the financial statements.

Disclaimer of opinion

33. Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

Emphasis of matters

34. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Fruitless and wasteful expenditure

35. As disclosed in note 42 to the financial statements, fruitless and wasteful expenditure of R15 565 936 for the current year and R15 408 286 from prior years have not yet been dealt with in accordance with section 32 of the MFMA.

Going concern

36. As disclosed in the statement of financial performance, the municipality incurred a net loss of R359 162 192 for the year ended 30 June 2013 and, as of that date, the municipality's current liabilities exceeded its current assets by R263 523 940. These conditions, along with other matters as set forth in note 39, indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern.

Restatement of corresponding figures

37. As disclosed in note 37 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of errors discovered during 2012/13 in the financial statements of the municipality at, and for the year ended, 30 June 2012.



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Additional matter

38. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

39. The supplementary information set out on pages 370 to 379 does not form part of the financial statements and is presented as additional information. I have not audited these annexures and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

40. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

41. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages 141 to 220 of the annual report.
42. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned development priorities or objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury Framework for managing programme performance information (FMPPI).
43. The reliability of the information in respect of the selected development priorities and objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
44. There were no material findings on the annual performance report concerning the usefulness and reliability of the information.

Additional matter

45. Although no material findings concerning the usefulness and reliability of the performance information were identified in the annual performance report, I draw attention to the following matter below.

Achievement of planned targets

46. Of the total number of 240 targets planned for the year, 98 of these targets were not achieved during the year under review. This represents 41% of the total planned targets that were not achieved during the year under review. This was as a result of the institution not considering relevant systems and evidential requirements during the annual strategic planning process.

Compliance with laws and regulations

47. I performed procedures to obtain evidence that the municipality has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:



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Budgets

48. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.

Annual financial statements, performance and annual reports

49. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a disclaimer audit opinion.

Procurement and contract management

50. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulation 17(a) & (c).
51. Quotations were accepted from prospective providers who are not registered on the list of accredited prospective providers and do not meet the listing requirements prescribed by the SCM policy in contravention of SCM regulation 16(b) and 17(b).
52. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).
53. Sufficient appropriate audit evidence could not be obtained that bid specifications were drafted by bid specification committees which were composed of one or more officials of the municipality as required by SCM regulation 27(3).
54. Sufficient appropriate audit evidence could not be obtained that bids were evaluated by bid evaluation committees which were composed of officials from the departments requiring the goods or services and at least one SCM practitioner of the municipality as required by SCM regulation 28(2).
55. Contracts and quotations were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding and quotations, in contravention of SCM Regulations 21(b) and 28(1)(a) and the Preferential Procurement Regulations.
56. Sufficient appropriate audit evidence could not be obtained that bid adjudication was always done by committees which were composed in accordance with SCM regulation 29(2).
57. Awards were made to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer, as required by SCM regulation 29(5)(b).
58. The preference point system was not applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act and SCM regulation 28(1)(a).
59. Contracts and quotations were awarded to bidders based on preference points that were not allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.
60. Contracts and quotations were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of Preferential Procurement Policy Framework Act.
61. Sufficient appropriate audit evidence could not be obtained that contracts were only extended or modified after tabling the reasons for the proposed amendment in the council of the municipality, as required by section 116(3) of the MFMA.



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62. Sufficient appropriate audit evidence could not be obtained that all extension or modification to contracts were approved by a properly delegated official, as required by SCM Regulation 5.
63. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
64. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.
65. Sufficient appropriate audit evidence could not be obtained that construction contracts were awarded to contractors that were registered with the Construction Industry Development Board (CIDB) and qualified for the contract in accordance with section 18(1) of the CIDB Act and CIDB regulations 17 and 25(7A)
66. Construction projects were not always registered with the Construction Industry Development Board (CIDB), as required by section 22 of the CIDB Act and CIDB regulation 18.
67. Sufficient appropriate audit evidence could not be obtained that contract and quotations were only awarded to providers whose tax matters have been declared by the South African Revenue Service to be in order as required by SCM regulation 43.
68. Contracts and quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
69. Awards were made to providers who are in the service of the municipality and directors or principal shareholders are in the service of the municipality in contravention of section 112(j) of the MFMA and SCM regulation 44. Furthermore the provider failed to declare that he/she was in the service of the municipality, as required by SCM regulation 13(c).
70. Awards were made to providers who are in the service of other state institutions or whose directors/ principal shareholders are in the service of other state institutions, in contravention of MFMA section 112(j) and SCM regulation 44. Similar awards were identified in the prior year and no effective steps were taken to prevent or combat the abuse of the SCM process in accordance with SCM regulation 38(1).
71. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, as required by SCM regulation 46(2)(e) and the code of conduct for councillors issued in terms of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) and the code of conduct for staff members issued in terms of the MSA.
72. A list of accredited prospective providers was not in place for procuring goods and services through quotations as required by SCM regulation 14(1)(a).
73. The prospective providers list for procuring goods and services through quotations was not updated at least quarterly to include new suppliers that qualify for listing, and prospective providers were not invited to apply for such listing at least once a year as per the requirements of SCM regulation 14(1)(a)(ii) and 14(2).
74. Sufficient appropriate audit evidence could not be obtained that all contracts were awarded in accordance with the legislative requirements and a procurement process which is fair, equitable, transparent and competitive, as management has failed to implement a record management system.

Human resource management and compensation

75. The competencies of financial and supply chain management officials were not assessed in a timely manner in order to identify and address gaps in competency levels as required by the Municipal Regulations on Minimum



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Competency Levels regulation 13.

76. The municipality did not submit a report on compliance with prescribed competency levels to the National Treasury and relevant provincial treasury as required by the Regulations on Minimum Competency Levels regulation 14(2)(a).
77. The annual report of the municipality did not reflect information on compliance with prescribed minimum competencies as required by the Regulations on Minimum Competency Levels regulation 14(2)(b).
78. Sufficient appropriate audit evidence could not be obtained that supply chain management managers and finance officials at middle management met any of the prescribed competency areas as required by regulation 8 and 9 of the Municipal Regulations on Minimum Competency Levels.

Expenditure management

79. Money owing by the municipality was not always paid within 30 days or an agreed period, as required by section 65(2)(e) of the MFMA.
80. An adequate management, accounting and information system was not in place which accounted for creditors, as required by section 65(2)(b) of the MFMA.
81. Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Asset management

82. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the Municipal Finance Management Act.

Liability management

83. An effective system of internal control for liabilities, including a liability register, was not in place, as required by section 63(2)(c) of the Municipal Finance Management Act.

Consequences management

84. Unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA.
85. The accounting officer did not always report cases of irregular conduct that constituted a crime to the South African Police Service, as required by SCM regulation 28(1)(b).

Waste management

86. The municipality operated its wastewater treatment facilities without licenses in contravention of section 20(b) of the National Environmental Management Waste Act, 2008 (Act No. 59 of 2008) (NEMWA), section 24(2)(a) of the National Environmental Management Act, 1998 (Act No. 107 of 1998) (NEMA) and section 22(1)(b) of the National Water Act, 1998 (Act No. 36 of 1998) (NWA).
87. The municipality's operational activities at its waste disposal sites and wastewater treatment facilities contravened or failed to comply with the requirements of a waste management permit or license and the regulatory provisions in terms of section 67(1)(f)&(h) of the NEMWA and section 29(4) of the ECA in instances where such were issued.



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88. The municipality's waste management and disposal activities contravened or failed to comply with the requirements of section 28(1) of the NEMA, section 19 of the NWA and sections 16(1)(c)&(d) and 26(1)(b) of the NEMWA.

Internal control

89. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for disclaimer of opinion and the findings on compliance with laws and regulations included in this report.

Leadership

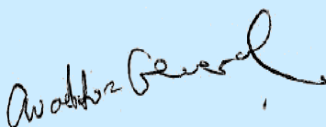
90. The leadership has not enforced a culture of honesty, ethical business practices and good governance. Resolutions adopted by Council to address prior year audit findings had little impact on audit outcomes as matters that were reported on in prior years were not resolved.

Financial and performance management

91. Management's failure to comply with laws and regulations as well as their inability to implement controls to ensure reliable and accurate financial reporting, reflects negatively on their commitment towards improved audit outcomes. Furthermore, management did not implement a proper record management system to address repetitive findings relating to supply chain management regulations.

Governance

92. The risks which emanated from the prior year audit report were not addressed through the implementation of the risk management strategy adopted by the municipality. Though the audit committee fulfilled its function, the municipality did not adequately respond to the concerns raised by the audit committee, resulting in the internal control environment over financial information and compliance with laws and regulations being ineffective.



Rustenburg

30 November 2013



AUDITOR - GENERAL
SOUTH AFRICA